
Transportation Revenue Options

**Presentation to the
House Ways and Means Committee**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

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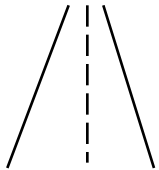
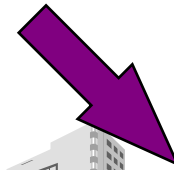
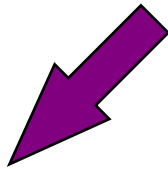
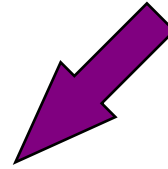
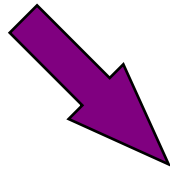
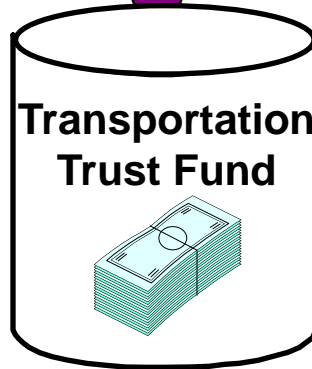
Transportation Trust Fund Overview

How the Transportation Trust Fund Works

Motor Fuel Tax
Operating Revenues
Federal Aid

Corporate Income Tax
Titling Tax
Motor Vehicle Taxes and Fees

Bonds and Other Aid
Sales Tax on Rental Cars



State Highway Administration



Motor Vehicle Administration



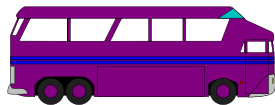
Local Governments



Debt Payments



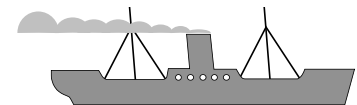
Maryland Aviation Administration



Maryland Transit Administration



Washington Metropolitan Transit Authority



Maryland Port Administration

Fiscal 2013

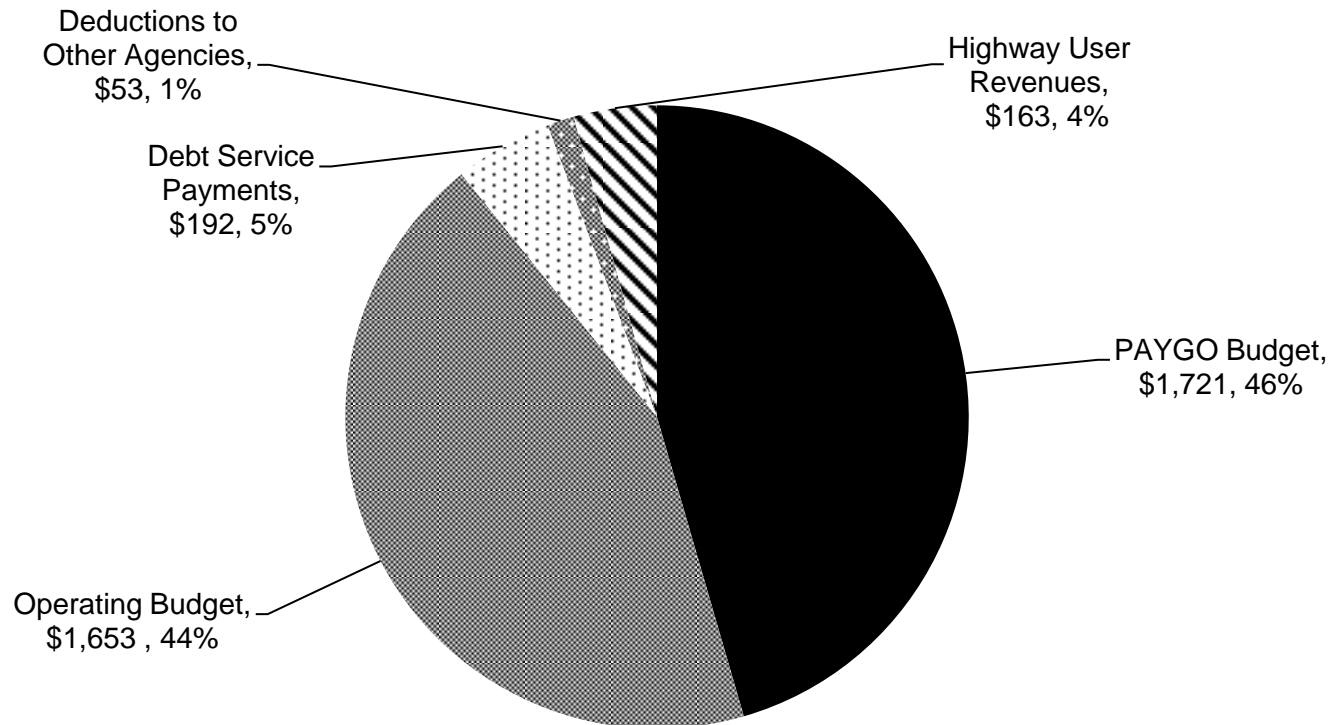
Gross Transportation Revenues

	(\$ in Millions)	
	<u>Amount</u>	<u>% of Total Revenue</u>
Federal Aid	\$787	21%
Motor Fuel Tax	753	20%
Titling Tax	711	19%
Operating Revenues	397	11%
Registration Fees	371	10%
Bond Sales	315	8%
Miscellaneous MVA Fees	269	7%
Corporate Income Tax	66	2%
Other	97	3%
Total	\$3,766	100%

MVA: Motor Vehicle Administration

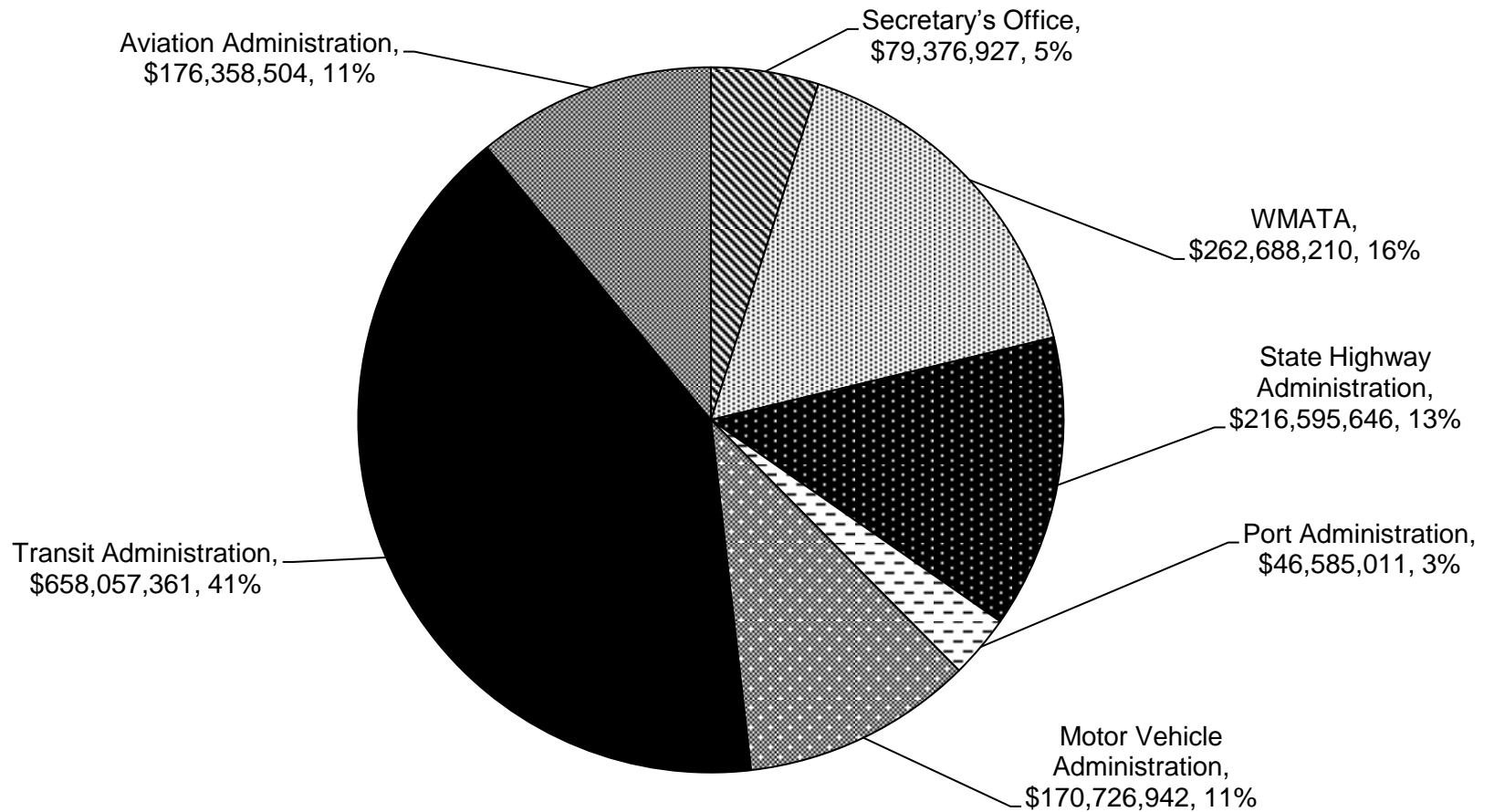
Fiscal 2013 Spending

(\$ in Millions)



PAYGO: pay-as-you-go

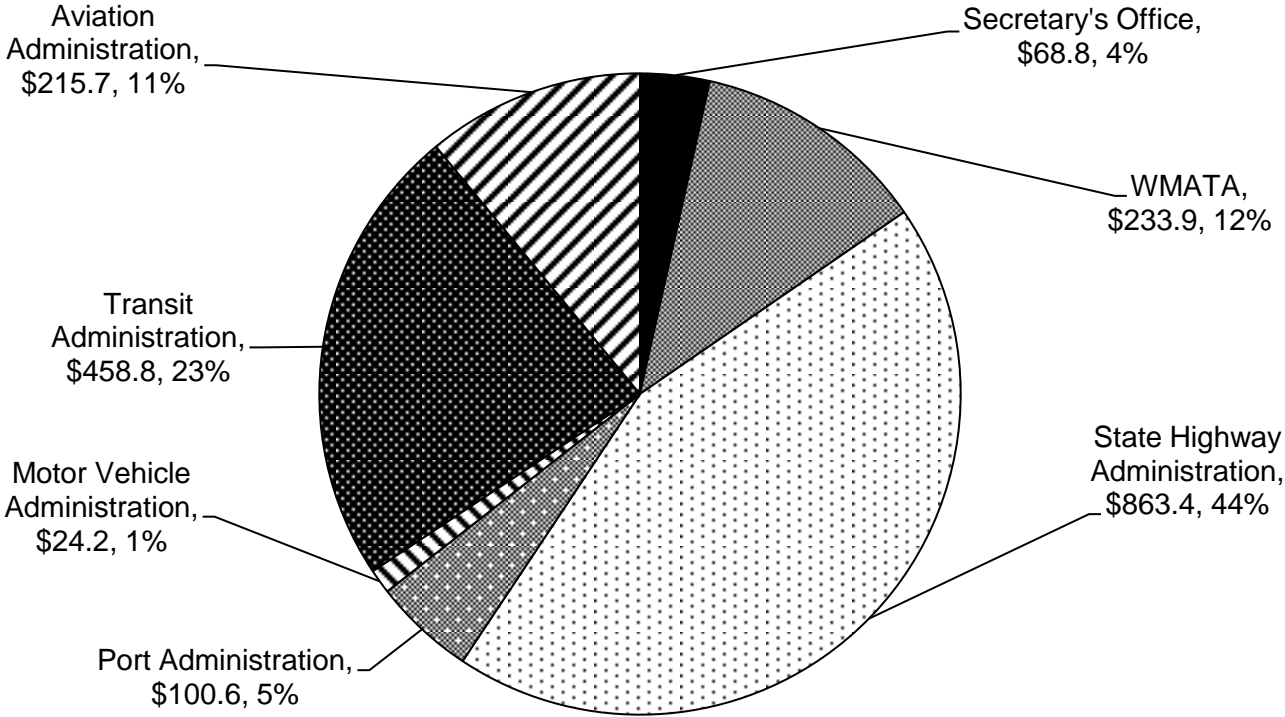
Fiscal 2013 Operating Budget



WMATA: Washington Metropolitan Area Transit Authority

Fiscal 2013 Capital Budget

\$2.0 Billion in Special, Federal, and Other Funds
(\$ in Millions)



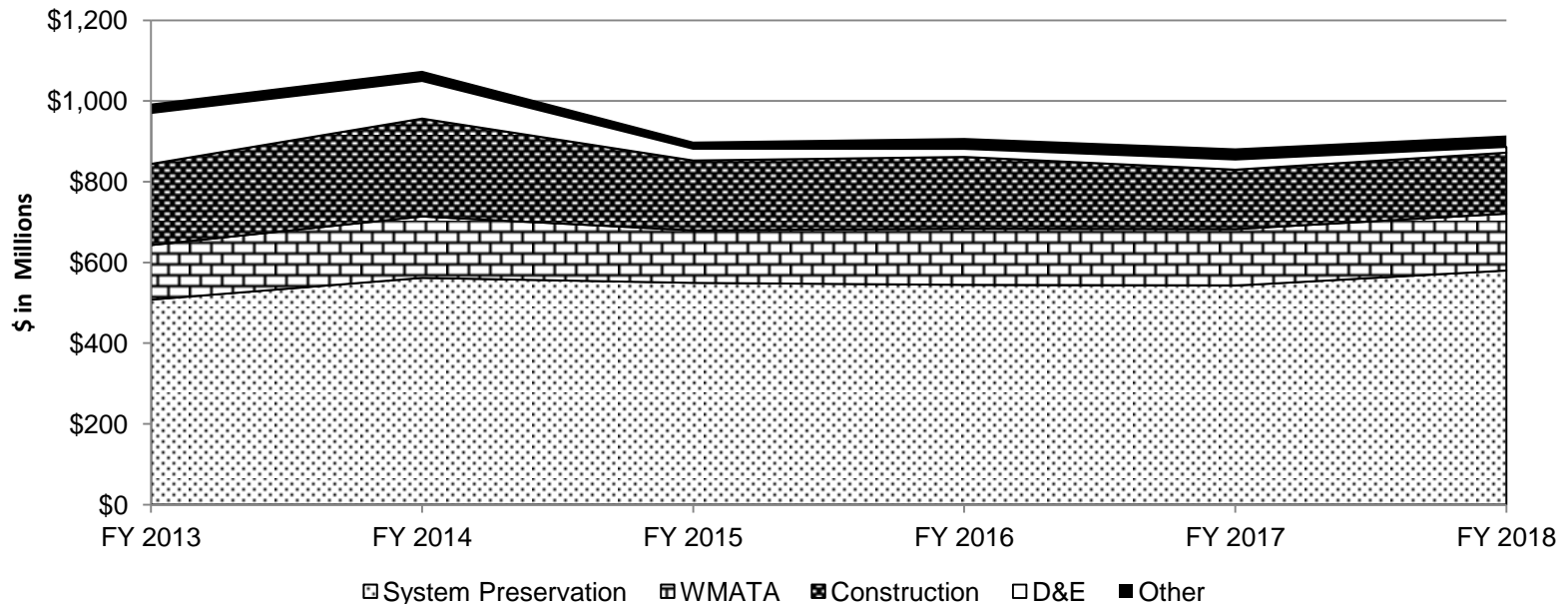
WMATA: Washington Metropolitan Area Transit Authority

TTF Forecast Outlook

- The TTF forecast includes several optimistic assumptions for revenue growth and operating budget spending. If not met, there will be less revenue for the capital program or more operating budget spending, which would reduce cash for the capital program.
- The Maryland Department of Transportation's (MDOT) forecast includes \$1.9 billion in debt issuances to support the capital program. Future debt issuances could be constrained if revenue and spending estimates are not met.
- Based upon the Department of Legislative Services (DLS) forecast, MDOT's \$5.7 billion special fund capital program could be more than \$2.0 billion less than forecasted.
- MDOT's optimistic assumptions of revenue and spending likely mean that their forecast for capital spending represents the best case scenario for future capital spending.

Capital Spending

Assuming MDOT meets its estimates for revenue and spending, the department's special fund capital program will largely focus on system preservation types of projects in the coming years.



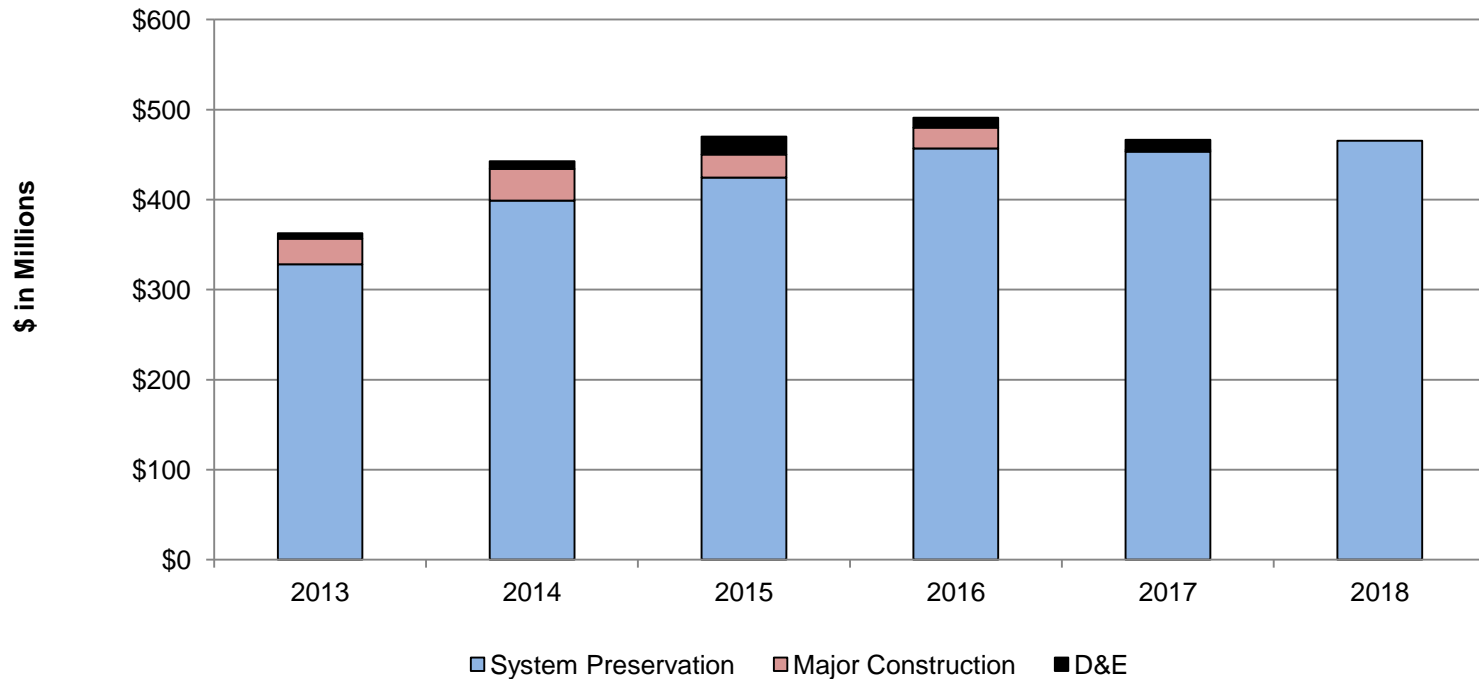
D&E: development and evaluation

WMATA: Washington Metropolitan Area Transit Authority

Issues

Highway Capital Spending

By fiscal 2018, special fund highway capital spending will be focused solely on system preservation.



D&E: development and evaluation

What Is Not Included in the *Consolidated Transportation Program (CTP)*

In addition, while MDOT may not be able to fund the current special fund capital program as planned, there are still several projects not funded in the current capital program:

- funding for the construction of the Red and Purple lines as well as the Corridor Cities Transitway;
- funding for major projects that would expand and enhance the highway network; and
- funding for the Watershed Implementation Plan beyond fiscal 2017.

Alternative Financing for the Transit Lines

- The State continues to move forward with plans to construct the Red and Purple lines as well as the Corridor Cities Transitway.
- Based upon the updated financial plan, the peak cash flow for the cost of construction is \$820 million in fiscal 2017.
- The State may want to consider alternative transit financing options instead of relying on traditional revenue sources.

Alternative Financing Options

- **Availability Payments:** Payments to the private sector to cover the capital and operating costs.
- **Transportation Infrastructure Finance and Innovation Act (TIFIA):** A federal loan/credit assistance program that provides below market interest rates for transportation programs.
- **Value Capture:** Refers to the idea of using the increase in land value due to the construction of a transit project to pay for the construction of the project.
- **Local Option Revenues:** Authorizing local option revenues (e.g., sales and motor fuel tax) for the construction of a transit line.
- **General Fund Revenue/General Obligation (GO) Bonds**

Alternative Financing Issues

- Availability Payments and federal TIFIA loan are financing options that will still require an increase in revenue to support the payment to the private sector or repayment of the loan.
- Availability Payments and federal TIFIA loan may be subject to State debt limitations and calculations.
- Value Capture and local option revenues are likely to be insufficient as standalone revenue tools.
- One option may be to use a portion of the additional \$150 million in GO bonds for transportation.

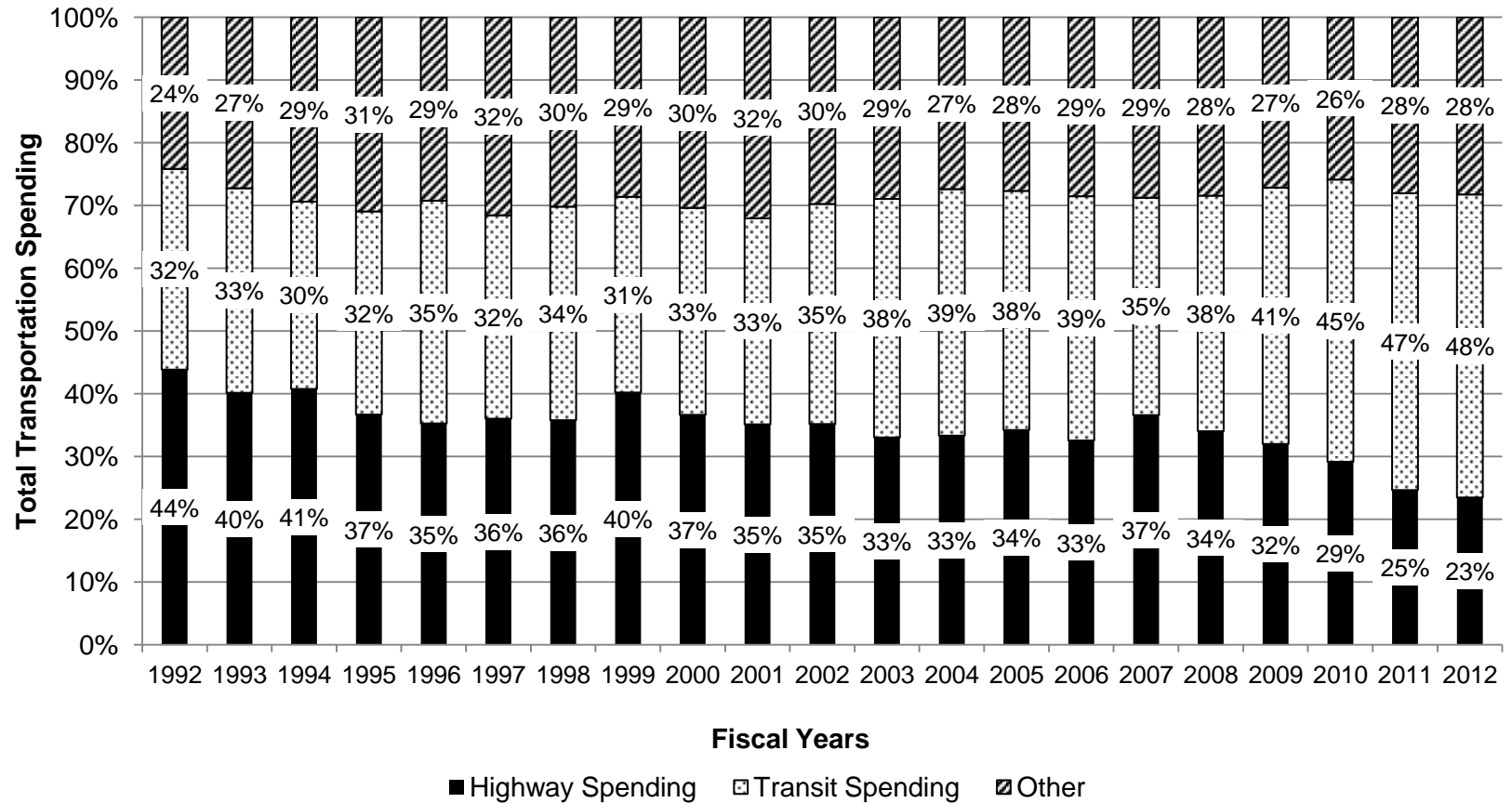
MDOT Report on Financing Options

- In response to committee narrative in the *Joint Chairmen's Report*, MDOT sent a report to the budget committees outlining alternative financing strategies similar to the DLS report.
- MDOT indicates that “it has become clear that traditional State resources will be insufficient to fully fund the three New Start projects and maintain the traditional balance in MDOT capital program expenditures.”
- MDOT concluded that transit-oriented development and regional transit authorities have “little to no revenue potential.”
- Value Capture is a form of a local contribution to the project. The current financing plan does not assume any local contribution.
- While a regional sales tax has large revenue potential, it is unlikely to be implemented for a single project.
- Public-private partnerships are not a revenue option, but may help in the financing of a project.

Transit Line Cost Increases and Federal Aid Assumptions

- MDOT's report also indicated that the cost of the Red Line increased from \$2.219 billion to \$2.575 billion and the Purple Line increased from \$1.925 billion to \$2.152 billion. In total, the cost of constructing the transit lines has increased \$583 million.
- Currently, only 20% of the design work is completed for the Red and Purple lines, so costs may yet increase.
- MDOT also assumes federal funds at near 50%. It is not clear that the 50% assumption is feasible given that federal aid for constructing the transit lines comes from the federal general fund and competes for funding against other projects.
- Based upon MDOT's report, peak cash flow would occur in fiscal 2017 and total \$820 million for just the Red and Purple lines. This is based upon a potentially high federal aid assumption and cost estimates that are not finalized.

Total Special Fund Highway Versus Transit Spending



Note: This does not account for the construction of the InterCounty Connector.

Local Highway User Revenues (HUR)

- Transportation revenues have historically been distributed to Baltimore City, counties, and municipalities through the Highway User Revenues (HUR) formula.
- Local HUR is distributed using a formula based upon road miles and vehicle registrations.
- Prior to fiscal 2010, local jurisdictions had received 30% of eligible revenues, with Baltimore City receiving approximately 40% of that local aid share.
- Due to shortfalls in the general fund, the local share of HUR was reduced beginning in fiscal 2010.
- The local share of HUR totaled \$467 million in fiscal 2009, the last year it was fully funded, compared to \$163 million in fiscal 2013.
- To what extent the local share of HUR is restored or increased will need to be considered as part of any revenue increase.

State Debt Limitations

- State debt is limited by two measures: (1) debt outstanding should not exceed 4% of personal income; and (2) debt service should not exceed 8% of revenues.
- Typically, when transportation revenues are increased, MDOT's ability to issue debt is also increased in recognition of the additional revenue able to support that debt.
- Future transportation debt issuances may need to be constrained to meet other State priorities.

Recent Revenue Proposals

Blue Ribbon Commission on Maryland Transportation Funding

- Chapters 525 and 526 of 2010 established the Blue Ribbon Commission on Maryland Transportation Funding to look at transportation funding needs and mechanisms.
- The commission started meeting in summer 2010. An interim report was submitted in December 2010, with the final report submitted on November 1, 2011.
- The commission issued a second interim report in February 2011 that included recommendations and revenue options for the General Assembly to consider during the 2011 session.

Commission Recommendations

- Amend the constitution or enact statute to limit circumstances under which transfers from the TTF to the general fund could occur.
- Raise approximately \$870 million in net new annual revenues to increase funding for State obligations and to restore the local share of HUR:
 - 15 cent motor fuel tax increase phased in over three years with indexing beginning in year four;
 - increase registration fees 50.0%;
 - either increase the titling tax to 6.5% or eliminate the trade-in allowance;
 - increase transit fares to meet farebox recovery requirement;
 - increase Vehicle Emissions Inspection Fee to \$28;
 - remove Motor Vehicle Administration Cost Recovery Cap

Commission Recommendations (Cont.)

- restore the local share of HUR;
- reach farebox recovery goal of 35.0% and adopt methodology to adjust fares to keep pace with inflation;
- increase bonding capacity with revenue adjustment;
- facilitate smart growth by investing in transportation in growth areas; or
- explore alternative financing mechanisms like value capture and public-private partnerships.

Recent Revenue Legislation

- House Bill 1001/Senate Bill 714 from the 2011 session mirrored many of the recommendations from the Blue Ribbon Commission and would have raised \$471.2 million in fiscal 2012.
- House Bill 1059 of 2011 would have phased in a 20 cent increase in the motor fuel tax.
- Senate Bill 451 of 2011 would have instituted a 4.0% sales tax on the sale of motor fuel and would have dedicated 25.0% of the revenue from Baltimore City and Montgomery and Prince George's counties to a separate transit account. It would have generated \$414.1 million in fiscal 2017.
- House Bill 1156 of 2012 would have indexed the motor fuel tax to the Construction Cost Index. It would have generated \$110.7 million in fiscal 2017.

Recent Revenue Legislation (Cont.)

- House Bill 1302/Senate Bill 971 of 2012 was an Administration proposal to apply the sales tax to the retail price of gasoline phased in over time. Once fully implemented, the legislation would have generated \$658.0 million.
- Senate Bill 766 of 2012 would have applied a 2.1% sales tax to the sale of motor fuel at the distributor level for a mass transit account. Fiscal 2013 revenue would have totaled \$126.0 million.
- Senate Bill 325 of 2012 would have increased the sales tax from 6.0 to 7.0% in urban counties and dedicated the revenue to a regional mass transit account. This would have generated \$432.0 million in fiscal 2013.
- Senate Bill 589 of 2012 would have increase the sales tax from 6.0 to 6.5% in urban counties and dedicated the revenue to a regional mass transit account. This would have generated \$217.0 million in fiscal 2013.